



NATIONAL RESOURCE CENTER ON
**CHARTER
SCHOOL**
FINANCE & GOVERNANCE

PROMISING PRACTICE PROFILE

Using Municipal Bonds to Finance Charter School Facilities

Walter D. Palmer Leadership Learning Partners Charter School, Philadelphia, Pennsylvania

SUMMARY Charter school leaders often struggle to find financing for the construction of school facilities that meet their needs and to manage the complex process of putting this financing in place. In this promising practice profile, the National Resource Center on Charter School Finance and Governance highlights the success of the Walter D. Palmer Leadership Learning Partners Charter School in partnering with Mosaica Education, Inc., The Palmer Foundation, and the City of Philadelphia to use innovative financial management strategies to fund the construction of a new charter school facility.

Promising Practice in:

- Charter School Finance
- Charter School Governance

Implemented by:

- State Policymaker
- Charter Authorizer
- Charter Operator
- Other

Inside:

- Implementation Details
- Impact
- Lessons Learned
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BACKGROUND As with many service and education institutions in urban areas, charter schools throughout Philadelphia have been challenged for years in their search for adequate facilities and the means to acquire such facilities. Charter schools often employ a variety of tactics in their efforts to meet this facility funding challenge, such as using operating funds to lease facilities or borrowing from private sources to acquire the capital necessary for a facilities purchase.

For the Walter D. Palmer Leadership Learning Partners Charter School in Philadelphia, the solution to the challenge of finding adequate facilities funding came in the form of a strategic partnership involving the school, Mosaica Education, Inc., The Palmer Foundation, and the City of Philadelphia. Together, these stakeholders used municipal bonds to fund the construction of a new facility and facilitated economic development in the low-income neighborhood where the new building is located.

IMPLEMENTATION DETAILS

The Leadership Learning Partners Charter School (LLPCS) began as the brainchild of Walter D. Palmer, Ph.D., a community activist and social work professor at the University of Pennsylvania. Through The Palmer Foundation, he sought to promote leadership and citizenship training for local students. In a strategic move to accomplish his vision, Palmer resolved to establish a charter school built on these principles. Together with Mosaica

Education, Inc., an education service provider, he applied to the Philadelphia School District for a charter. In July 2005, the school received its charter from the Pennsylvania State Charter School Appeal Board.

Finding and Financing a Facility

From the outset, Dr. Palmer's vision included building a new school facility that could accommodate a planned student capacity of 750 students. Like many charter school developers, however, Palmer and Mosaica found it difficult to find financing for such a project. In their search for financial backing, The Palmer Foundation and Mosaica realized that tax-exempt municipal bonds were a potentially viable source of facilities funding (see *Tax-Exempt Municipal Bonds* below). To assure security for a bond, however, the school needed a track record as a successful enterprise. For a startup charter school trying to acquire its initial facilities, this requirement posed an immediate and a formidable challenge. Nonetheless, shortly after the LLCPS commenced operations, the school began working with the Philadelphia Authority for Industrial Development, which would be the conduit issuer of the bonds.

Tax-Exempt Municipal Bonds

A municipal bond is a debt security issued by a state, county, or municipality to finance its capital expenditures. Municipal bonds are exempt from federal taxes and from most state and local taxes, especially for residents of the state in which the bond is issued.

Municipal bonds can be used to fund expenditures such as the construction of schools, bridges, or highways. The bonds most often are bought for their favorable tax implications. For more information, see <http://www.investopedia.com/terms/m/municipalbond.asp>.

Keeping the ultimate goal of a newly constructed building in mind, The Palmer Foundation and Mosaica sought a preexisting facility to house the school temporarily while they worked to build the school's reputation as a quality education provider within the Philadelphia community. The partners found their startup facility in the form of a 150-year-old school building owned by the local Catholic Archdiocese. They negotiated a deal to acquire the building, and Mosaica provided approximately \$500,000 in loans

to fund the leasehold improvements required to bring the building up to code. The construction was completed during the summer of 2000, and in September of that year, the Walter D. Palmer Leadership Learning Partners Charter School opened its doors.

Getting Local Buy-in

During the next five years of the school's operation, Mosaica and The Palmer Foundation worked to develop vital partnerships with key city officials to support the acquisition of available property and the construction of a new facility. The partners found several blighted properties in downtown Philadelphia that they believed would make an excellent location for a new school construction project once the existing buildings were razed. Mosaica and Foundation representatives spent several years assuring city leaders that the school would be a critical vehicle for community redevelopment in the inner city. Eventually, they received the buy-in of the mayor, the City Council, and Philadelphia's Redevelopment Authority.

Once on board, the City condemned the properties and, using the right of eminent domain, bought the properties from their owners and deeded them to a charitable foundation, which then leased them to the school. To facilitate this process, Mosaica obtained a letter of credit from an outside investment fund to cover unanticipated or excess costs for the City. The partnership then began the bond issuance process to fund the construction of the new school building (see *Key Terms* below).

Funding the School's Construction

Mosaica and its partners identified tax-exempt bonds, to be issued by the Philadelphia Authority for Industrial Development, as the most cost-effective method of financing LLCPS's facility construction costs, and on July 12, 2005, the school closed on a \$10.7 million bond issue. Through the issuance of these bonds, the school received 100 percent of the funds it needed for construction, as opposed to the 80 percent or so that it would be allowed with most conventional bank mortgages. Moreover, because the bonds would be tax-exempt for investors, the school could reap the benefit of lower interest rates and longer principal amortization schedules than it would have been able to negotiate from a bank lender. LLCPS was able to negotiate a 30-year, fixed-rate mortgage at approximately 5.3 percent per annum.

The bond issuance process took approximately nine months from beginning to end. Mosaica managed and coordinated the process, which proved to be very detailed and complex. Key steps included:

- consulting and hiring bond counsel to draft the legal documents necessary for the bond issue and to deliver an opinion on the validity and tax-exempt status of the bonds;
- hiring an underwriter to prepare the bond documents, coordinate the bond rating process, structure the financing of the bonds, and market the bonds to institutional investors;
- obtaining the City Council's formal authorization for the Philadelphia Authority for Industrial Development to issue the bonds, execute all legal documents, and deliver the official statement; and
- marketing the bonds to potential investors through the underwriter's distribution of the official statement and convincing potential bondholders that the school was a worthwhile investment in the inner city's economic development.

As mentioned above, \$10.7 million of bonds were issued, with 30-year terms and a fixed interest rate of approximately 5.3%. Funds for repayment come from the school's operating revenues, and the bonds are being paid off as if they were a traditional mortgage. As a result, facilities costs for the new school building have been lower than when the school was paying rent, and yet the school is developing equity in the building.

IMPACT

In August 2006, LLPCS opened the doors of its new school building to staff, students, and families. According to Michael Connelly, Mosaica's President and Chief Executive Officer, the school is more than an educational facility for 675 students. It is a source of tremendous community pride, because the facility has brought new jobs to neighborhood residents and raised the value of housing in the area. The noticeable impact the construction of the new Leadership Learning Partners building has had on the surrounding community illustrates the role that charter school construction can play in the economic development of blighted inner-city neighborhoods.

Key Terms

Bond Counsel—an attorney or legal firm that reviews legal documents on new municipality issues, represents the bondholders' interests during a bond offering, and prepares the legal opinion attesting that the issue is legal, valid, and binding.¹

Leasehold Improvement—an enhancement to a leased asset that increases the value of said asset.²

Right of Eminent Domain—a right granted under the Fifth Amendment of the U.S. Constitution that gives the government the power to seize the property of an individual, often without the individual's full consent, for public enterprises such as roads, schools, or utilities installations. In most cases, the land owner is compensated for the land at fair market value.³

Security—an instrument or contract that represents a debt agreement and can be assigned a value and traded.⁴

Underwriter—an entity, usually a bank or other financial institution, that serves as an intermediary between a bond issuer and the investing public.⁵

- 1 Investopedia, <http://www.investopedia.com/terms/b/bondattorney.asp>
- 2 Investopedia, <http://www.investopedia.com/terms/l/leaseholdimprovement.asp>
- 3 Investopedia, <http://www.investopedia.com/terms/e/eminent-domain.asp>
- 4 Investopedia, <http://www.investopedia.com/terms/s/security.asp>
- 5 Investorwords.com, <http://www.investorwords.com/5134/underwriter.html>

LESSONS LEARNED

Throughout the complex process of acquiring the municipal bonds, Mosaica, The Palmer Foundation, and their community partners encountered a number of challenges and opportunities that impacted their ability to access the funds needed to construct a new school building for the Leadership Learning Partners Charter School.

Implementation Challenges

To find financing for the new Leadership Learning Partners Charter School facility, The Palmer Foundation and Mosaica first had to combat the bond market's lack of familiarity with charter schools. The key to overcoming this challenge proved to be encouraging bond investors to see the charter school as a sound investment in the local community.

This strategy also proved valuable as the partners sought to build the political support needed to move forward with their financial strategy. To access municipal bonds, The Palmer Foundation and Mosaica had to obtain the backing of the City of Philadelphia and its Redevelopment Authority and demonstrate that the school would contribute to the social and economic development of the surrounding community. Ultimately, the partners were able to help local leaders recognize the potential that the educational facility had to positively impact the social and economic conditions of the neighborhood and residents it served.

“If you don’t have the details managed properly, the whole house of cards falls down.”

~Michael J. Connelly, President and Chief Executive Officer,
Mosaica Education

Keys to Success

According to Connelly, several factors have contributed to the success of the facility funding initiative. The most important component of this process, Connelly explained, is having a leader with a clear vision, skillful management, and the ability to build consensus.

- A clear vision means having the ability to look at the big picture, see the end goal clearly, and put all the necessary pieces together to achieve that goal.
- Skillful management means having the knowledge and ability to carefully manage the large number of detailed tasks that are involved in carrying out a sophisticated financial initiative. “If you don’t have the details managed properly,” Connelly said, “the whole house of cards falls down.”
- The ability to build consensus means being able to pull together all the key players—from political and administrative support at the city level to lawyers and financiers—to make the partnership work. The City’s support was essential to the process. City representatives assisted Mosaica, The Palmer Foundation, and their community partners in acquiring the property for the new building, issuing the bonds necessary to fund the project, certifying that the school was “effective,” and declaring that the bonds qualified for tax-exempt financing.

ADDITIONAL COMMENTS

Mosaica Education, Inc., has been recognized on numerous occasions for its role in the economic development of inner cities, including Philadelphia. In 2007, Mosaica won the Inner City Impact Award, conferred by the Initiative for a Competitive Inner City (an affiliate of Harvard Business School) for the impact its programs have had on inner-city life nationwide. The organization has also been on Inc. magazine’s Inner City 100 list of the fastest-growing businesses in inner cities for four consecutive years.

USEFUL RESOURCES

- Investopedia. <http://www.investopedia.com>
- Mosaica Education, Inc. <http://www.mosaicaeducation.com/>
- Redevelopment Authority (for Philadelphia). <http://www.phila.gov/rda/>
- Walter D. Palmer Leadership Learning Partners Charter School. <http://www.leadershipacademy.org/>

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This Profile is one in a series highlighting promising practices in charter school finance and governance implemented by state policymakers, charter authorizers, and charter operators across the country. This Profile was written by The Finance Project for the National Resource Center on Charter School Finance and Governance (NRC). Promising practices are selected from nominations received by the NRC on the basis of innovativeness, evidence of positive impact, and potential for transferability and usefulness. The NRC has not conducted program evaluations of the initiatives profiled and does not endorse particular policies, practices, or programs. For more information on this Profile, please contact The Finance Project at (202) 628-4200.

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To nominate a promising practice for inclusion in this series, go to <http://www.charterresource.org/promising/nomination.asp>.